

Audit



Report

OFFICE OF THE INSPECTOR GENERAL

**PROCUREMENTS AND FACILITY RENOVATIONS
AT THE GEORGE C. MARSHALL CENTER**

Report No. 95-206

May 30, 1995

Department of Defense

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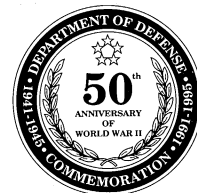
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Acronyms

FAR	Federal Acquisition Regulation
PR&C	Purchase Request and Commitment
RCO	Regional Contracting Office
USAFE	U.S. Air Forces in Europe
USAREUR	U.S. Army, Europe



INSPECTOR GENERAL
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May 30, 1995

MEMORANDUM FOR COMMANDER IN CHIEF, U.S. EUROPEAN COMMAND
ASSISTANT SECRETARY OF THE AIR FORCE
(FINANCIAL MANAGEMENT AND COMPTROLLER)

SUBJECT: Audit Report on Procurements and Facility Renovations at the
George C. Marshall Center (Report No. 95-206)

We are providing this audit report for review and comment. The report discusses DoD Hotline allegations related to procurement actions and facility renovations at the George C. Marshall European Center for Security Studies. We considered management comments on a draft of this report in preparing the final report.

DoD Directive 7650.3 requires that all audit recommendations be resolved promptly. Based on management comments, we deleted one recommendation and revised another recommendation. The Air Force comments were not fully responsive. Therefore, the Air Force is requested to provide final comments on Recommendation 2. by July 31, 1995.

We appreciate the courtesies extended to the audit staff. Questions on this audit should be directed to Mr. Joseph P. Doyle, Audit Program Director, at (703) 604-9348 (DSN 664-9348) or Ms. Deborah L. Culp, Audit Project Manager, at (703) 604-9335 (DSN 664-9335). Appendix D lists the planned distribution of this report. The audit team members are listed inside the back cover.

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Office of the Inspector General, DoD

Report No. 95-206
(Project No. 4CK-8003)

May 30, 1995

Procurements and Facility Renovations at the George C. Marshall Center

Executive Summary

Introduction. The audit was performed in response to a DoD Hotline referral on procurements and facility renovations at the George C. Marshall European Center for Security Studies (the Marshall Center), Garmisch, Germany. The Marshall Center was chartered in November 1992 as an element of the U.S. European Command. The Marshall Center's mission is to foster understanding and cooperation on defense matters among countries of the North Atlantic Treaty Organization, countries of Eastern Europe, and countries that were part of the former Soviet Union.

Objectives. The audit objectives were to determine whether procurements and facility renovations were properly performed at the Marshall Center. We also reviewed the specific DoD Hotline allegations. In addition, we reviewed management controls applicable to the audit objectives.

Audit Results. The Director, Marshall Center, is commended for his cooperation and initiation of prompt corrective actions during the audit. Marshall Center funds and resources were inefficiently and ineffectively used. As a result, \$576,350 of the \$3.4 million used by the Marshall Center for contracting was either inappropriately spent or programmed. In addition, the Government had no assurance that property and other resources were adequately safeguarded against waste. However, as discussed in Part II, the Marshall Center has taken actions to correct a majority of the deficiencies disclosed during the audit.

The allegations were generally valid. However, the Marshall Center had implemented actions during the audit to correct a majority of the nonmaterial management control weaknesses associated with the allegations. See Appendix A for details of the allegations and Part I for management controls reviewed.

Potential Benefits of Audit. Potential monetary benefits and operational efficiency can be realized by improving procurement, contracting, facility planning, and operating procedures. However, we could not quantify the amount of those benefits. Potential monetary benefits of \$495,000 will result from delaying completion of non-mission-essential phases of a land restoration project. Also, the Marshall Center recouped about \$20,000 from the return of costly conference center chairs. See Appendix B for summary of potential benefits resulting from the audit.

Summary of Recommendations. We recommend that the Marshall Center correct management control weaknesses related to procurements, facility planning, and overall operations. We also recommend that the Marshall Center delay the completion of specific land restoration phases that are not mission-essential. In addition, we recommend that the Air Force correct management control weaknesses concerning purchase requests and contracting.

Management Comments. The Headquarters, U.S. European Command, responded for the Marshall Center and concurred, agreeing to correct management control weaknesses related to procurements, facility planning, and overall operations. The

U.S. European Command delayed the completion of specific land restoration phases except for one, the installation of a west entrance gate. The U.S. European Command believes that the entrance gate is needed to increase the safety and security of the Marshall Center.

The Air Force concurred with the recommendations related to purchase requests and nonconcurred with the recommendations concerning contracting. The U.S. Air Forces in Europe (USAFE) Civil Engineer Directorate agreed to better document cost alternatives proposed and to write all specifications and purchase descriptions in functional terms. In addition, the Civil Engineer Directorate agreed to provide training to educate the USAFE interior designer on proper DoD procurement practices. The USAFE Contracting Squadron disagreed with being tasked to monitor all purchase requests to ensure that the requests meet the agencies' minimum needs. The Contracting Squadron also took exception to being tasked to monitor all item specifications and purchase descriptions to ensure that they are stated in functional terms. A discussion of the responsiveness of management comments is in Part II of this report. The complete text of management comments is in Part IV.

Audit Response. We deleted the recommendation delaying the installation of the west entrance gate. We disagree with the USAFE Contracting Squadron's position that it is not required to monitor all purchase requests to ensure the requested items meet the agencies' minimum needs and that all item specifications and purchase descriptions are written in functional terms. The Federal Acquisition Regulation specifically states that the contracting officer is to ensure that all laws and regulations are followed before a contract can be entered into. One of the contracting stipulations is that contract specifications and purchase descriptions shall meet agencies' minimum needs and shall be written in functional terms. Comments on the unresolved recommendations are requested from the Air Force by July 31, 1995.

Table of Contents

Executive Summary	i
Part I - Introduction	
Background	2
Objectives	2
Scope and Methodology	2
Management Control Program	3
Prior Audits and Other Reviews	4
Part II - Finding and Recommendations	
Marshall Center Funds and Other Resources	6
Part III - Additional Information	
Appendix A. Summary of Allegations and Audit Results	22
Appendix B. Summary of Potential Benefits Resulting From Audit	24
Appendix C. Organizations Visited or Contacted	26
Appendix D. Report Distribution	27
Part IV - Management Comments	
U.S. European Command Comments	30
Department of the Air Force Comments	35

Part I - Introduction

Introduction

Background

The audit was performed in response to a DoD Hotline referral on procurements and facility renovations at the George C. Marshall European Center for Security Studies (the Marshall Center), Garmisch, Germany.

Marshall Center Mission. The Marshall Center was chartered in November 1992 by the Secretary of Defense and founded in June 1993. The Marshall Center's mission is to foster understanding and cooperation on defense matters among countries of the North Atlantic Treaty Organization, countries of Eastern Europe, and countries that were part of the former Soviet Union. Special emphasis is placed on human rights and civilian control of the military and on studying how regional conflicts might be avoided, contained, and resolved by peaceful means.

Marshall Center Organizational Structure. The Marshall Center's organizational structure includes both existing and new entities. The former U.S. Army Russian Institute and the Foreign Language Training Center Europe were incorporated into the Marshall Center and renamed the Foreign Area Officer Institute and Language Training Institute, respectively. Entirely new components include the Research and Conference Center and the College of Strategic Studies and Defense Economics.

Marshall Center Policy and Guidance Support. The Marshall Center receives support from various DoD organizations. The Under Secretary of Defense for Policy is responsible for policy oversight. The U.S. European Command is the major command for the Marshall Center and provides authority, direction, and control. The U.S. Army, Europe (USAREUR) is the executive agent, provides contracting support through Regional Contracting Office (RCO) Fuerth, and provides engineering and facility support through the Garmisch Area Support Team.

Objectives

The audit objectives were to determine whether procurements and facility renovations were properly performed at the Marshall Center. We also reviewed the specific DoD Hotline allegations. In addition, we reviewed the management controls applicable to the audit objectives.

Scope and Methodology

Audit Scope and Methodology. We reviewed 400 contracts awarded for the Marshall Center from September 1992 through July 1994, valued at about \$3.4 million. We reviewed the contracts at RCO Fuerth; Contracting Center,

Rhine Ordnance Barracks, U.S. Air Forces in Europe (USAFE) (the USAFE Contracting Squadron); and the Army Corps of Engineers, European District. The contracts reviewed were for office and conference center furnishings, language instructors and interpreters, books and magazines, and design and renovation work. Also, we reviewed General Services Administration, German, and U.S. contractor catalogs for office and conference center furniture to evaluate the needs of the Marshall Center. We reviewed the Marshall Center director's request for high-cost leased housing at USAREUR Family Housing Directorate.

We discussed facility planning with personnel from the Marshall Center, the Garmisch Area Support Team, and the Army Corps of Engineers, European District. In addition, we discussed the living quarters allowance for the Marshall Center director with the 266th Theater Finance Command personnel.

We did not use statistical sampling procedures to conduct this audit.

Use of Computer-Processed Data. We relied on computer-processed purchase request data from RCO Fuerth. The data from the Standard Army Automated Contracting System were used to determine the overall number, dollar value, and description of contracts. In addition, the data were used to determine whether Marshall Center personnel split purchase requirements to allow contracts to be awarded sole-source. The computer-processed data were reliable for the purposes of this audit.

Audit Period, Standards, and Locations. This economy and efficiency audit was made from February through November 1994. The audit was performed in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD. Accordingly, we included tests of management controls that were considered necessary. Appendix B summarizes the potential benefits resulting from the audit. The organizations visited or contacted are listed in Appendix C.

Management Control Program

DoD Directive 5010.38, "Internal Management Control Program, " April 14, 1987, requires DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

Scope of the Review of Management Controls. We reviewed management controls applicable to procurements at the Marshall Center, the USAFE Contracting Squadron, and the USAFE Civil Engineer Directorate. Also, we reviewed controls for the Marshall Center's facility planning and overall operations. In addition, we reviewed controls relevant to high-cost foreign leases at the USAREUR Family Housing Directorate.

Introduction

Adequacy of Management Controls. The audit did not identify reportable material management control weaknesses as defined by DoD Directive 5010.38. In addition, the director took action to correct a majority of the nonmaterial management control weaknesses identified during our review.

The Marshall Center management did not have a management control program in place during the first 15 months of operation. Therefore, management had not yet evaluated its own management controls. In March 1994, however, the Marshall Center director implemented a management control program. Because of the director's efforts, we made no recommendations concerning the previous lack of a program.

Prior Audits and Other Reviews

No other audits or reviews of the Marshall Center have been conducted.

Part II - Finding and Recommendations

Marshall Center Funds and Other Resources

The Marshall Center and USAFE personnel used Marshall Center funds and other resources inefficiently and ineffectively. That condition occurred because management controls were either circumvented or missing for procurements, facility planning, and Marshall Center operations. Consequently, \$576,350 of Marshall Center funds was either unnecessarily spent or unnecessarily programmed for contracting. Also, the Government had no assurance that property and other resources were adequately safeguarded against waste. During the audit, the Marshall Center director implemented actions to correct a majority of the management control weaknesses.

Background

Procurement Guidance. An April 21, 1993, Assistant Secretary of the Army (Research, Development, and Acquisition) memorandum, "Contract Offloading to Non-Defense Agencies," was issued to provide contract offloading policy. The policy defines contract offloading as the practice of requesting acquisition support from an activity other than "assigned supporting contracting office(s)." Paragraph 9, "Intra-DoD Offloading," states that "if an activity requires contracting support from other than its assigned servicing contracting office(s) . . . they shall coordinate requests for such support with their appropriate servicing contracting office."

Federal Acquisition Regulation (FAR) part 10, "Specifications, Standards, and Other Purchase Descriptions," states that agencies shall prepare specifications and purchase descriptions that reflect the minimum needs of the agency. Also, specifications and descriptions shall be stated in functional terms to promote full and open competition.

The FAR part 1, "Federal Acquisition Regulation System," prescribes contracting authority and responsibilities. The regulation states that "no contract shall be entered into unless the contracting officer ensures that all requirements of law, executive order, regulation, and all other applicable procedures, including clearances and approvals, have been met."

Regulation Governing Facility Planning. Army Regulation 210-20, "Master Planning for Army Installations," July 13, 1987, establishes the requirement for an Installation Master Plan and planning board. The regulation stipulates that, when developing a facility master plan, the activity's mission should be considered. In addition, the master plan is to provide direction for the future short- and long-range development of the military community and installation.

Management Control Program Directive. DoD Directive 5010.38 states that the separation-of-duties element of management controls should require different individuals to authorize, process, record, and review transactions. Furthermore, work shall be assigned so that no one individual controls all phases of an activity or transaction.

Use of Marshall Center Funds and Other Resources

Marshall Center and USAFE personnel used Marshall Center funds and other resources inefficiently and ineffectively. Specifically, Marshall Center personnel did the following:

- o inappropriately offloaded furnishing contracts,
- o approved the inefficient use of Marshall Center funds,
- o did not follow proper contracting procedures to award instructor and interpreter contracts,
- o inefficiently processed Purchase Request and Commitment (PR&C) forms for course reading materials,
- o used an installation master plan that did not address or prioritize mission-essential and non-mission-essential project requirements, and
- o did not separate duties for its facility projects or language instructor contracts.

Also, USAFE personnel implemented the inefficient use of Marshall funds.

Inefficient and ineffective use of funds occurred because the Marshall Center, the USAFE Civil Engineer Directorate, and the USAFE Contracting Squadron either circumvented or had not established management controls over procurements, facility planning, and Marshall Center operations. However, to help prevent future inefficient use of Marshall Center funds and other resources, Marshall Center management took action to correct many of the weaknesses. Details of the weaknesses in each area follow, along with a description of corrective actions by management.

Adequacy of Management Controls Over Procurements

Management control weaknesses relating to procurements existed in the areas of contract offloading, use of funds for furnishings and for instructor and interpreter contracts, and processing purchase request and commitment forms for course materials.

Marshall Center Funds and Other Resources

Contract Offloading by the Marshall Center. Marshall Center personnel offloaded 17 furnishing contracts, valued at about \$277,100, through the USAFE Contracting Squadron. The offloading occurred because the standard operating procedures and management controls were not established for procurement-related issues and because the Marshall Center management and staff were not properly trained. Consequently, furnishing contracts were costly and exceeded the Marshall Center's minimum needs.

The Marshall Center should have requested acquisition support from its supporting contracting office, RCO Fuerth. However, if the Marshall Center required contracting support from an office other than its supporting contracting office, the Marshall Center should first have coordinated requests with RCO Fuerth before submitting any procurement request packages. In the future, the RCO should review the request to determine whether or not offloading will be more economical or otherwise more beneficial to the Government. The Marshall Center director should revise the Marshall Center's standard operating procedures and training program to ensure that management and staff are properly educated to avoid future contract offloading.

Use of Marshall Center Funds for Furnishing Procurements. Marshall Center personnel approved the inefficient use of Marshall Center funds of \$81,350 to procure costly furniture for the Marshall Center director's office and the conference center. The costly procurements occurred because Marshall Center personnel did not adequately monitor the reasonableness of the furnishing costs because they lacked the expertise to do so. In addition, the USAFE Civil Engineer Directorate and the USAFE Contracting Squadron personnel did not follow the requirements and responsibilities prescribed in FAR parts 1 and 10. That would have prevented them from implementing the inappropriate purchases for the Marshall Center.

The Marshall Center's Involvement in Furnishing Procurements. In March 1993, the Marshall Center acquired the services of an interior designer from the USAFE Civil Engineer Directorate to help coordinate a comprehensive interior design package for the director's office and for the conference center. The interior designer identified and presented furnishing items to Marshall Center personnel for approval.

Besides not adequately monitoring or questioning the reasonableness of the furnishing costs, Marshall Center personnel requested that the conference center furnishings selected for procurement be sole-sourced. The justification for doing so was that the furnishing items were "part of a comprehensive interior design package which requires an extensive coordination of color, material, function, and comfort." Lack of expertise on procurement issues by the staff caused them to make inappropriate decisions. Consequently, high-cost furnishing items were approved for procurement by Marshall Center personnel.

The Marshall Center's initial staff size was inadequate. When the furnishing items were selected, only three senior staff members were present at the Marshall Center for decisionmaking purposes. The staff stated that its intention was to create a first-class institution that was representational to distinguished visitors and high-ranking officials. Procurement, supply, budgeting, and

finance personnel are now on staff at the Marshall Center to provide expertise to prevent future costly procurements. Therefore, we are not making a recommendation to add staff. However, those staff should be trained in procurement procedures.

Use of USAFE Civil Engineer Directorate to Select Furnishings. Higher-cost furnishings were purchased to accommodate the interior designer's request for furnishing items that exceeded the Marshall Center's minimum needs and restrictive specifications.

Exceeding Minimum Needs. The interior designer from the USAFE Civil Engineering Directorate requested furnishing items, approved by the Marshall Center, that did not reflect the Marshall Center's minimum needs as required by FAR part 10. Marshall Center personnel said that the interior designer discussed prices, but the interior designer stated that, to properly represent the Marshall Center, the purchase of quality furniture was more important than the cost of the furniture. About \$39,500 was spent on the director's office and about \$237,600 was spent on the conference center for furnishing items. The amounts did not include costs of renovation work or all furnishing items for the director's office and the conference center. We believe that the Marshall Center should be properly represented, but proper representation could have been achieved at a lower cost.

Restrictive Specifications. In addition to requesting furnishing items that exceeded the Marshall Center's minimum needs, the interior designer wrote restrictive purchase specifications. The restrictive specifications prevented full and open competition as required by FAR part 10. For example, the purchase specifications for the director's desk and conference table were inappropriately listed as 26 separate parts instead of as 1 functional item. Consequently, only one of the three contractors solicited submitted a bid. The other two were unable to competitively bid because they could not provide a desk and conference table that met the restrictive specifications.

Reasonableness of Purchases. We were unable to determine the reasonableness of all of the furnishings requested by the interior designer because of the furnishings uniqueness. The following are three examples of the purchase of furnishings that were high cost and exceeded minimum needs.

Desk and Conference Table. Marshall Center personnel spent about \$12,580 more than necessary to procure a desk, work station, and conference table for the director's office. The glass desk, work station, and conference table were purchased on a General Services Administration contract at a total cost of \$14,600 (including a \$3,120 installation fee). Sufficient alternative office furniture was available at an average cost of \$2,020 through other General Services Administration sources.

Executive Chair. Marshall Center personnel spent about \$770 more than necessary to procure an executive chair. The chair was purchased through a local German contractor at a cost of \$1,260, while sufficient alternative chairs were available at an average cost of \$490 through

Marshall Center Funds and Other Resources

General Services Administration contracts. The executive chair, which was upholstered in black leather, was used as a desk chair for the director.

Conference Chairs. Marshall Center personnel spent about \$68,000 more than necessary to procure 95 conference chairs. The 95 chairs were made up of 87 conference chairs for the conference center and 8 chairs for the director's office, with unit costs of \$960 and \$1,150, respectively. Sufficient alternative conference chairs were available at an average cost of \$260 each. The conference center chairs were purchased on a General Services Administration contract, while the director's conference chairs were purchased through a local German contractor.

Procedures to Reflect Minimum Needs. The USAFE interior designer stated that several alternative lower-cost furnishing options were presented to Marshall Center personnel, but that they selected the higher-cost items. The alternative cost options were not properly documented by the interior designer. Furthermore, the designer explained that the majority of the furnishings were purchased through General Services Administration contracts; therefore, the furnishing costs were irrelevant. However, whether or not the furnishing items were purchased through General Services Administration contracts, the items should not have exceeded the Marshall Center's minimum needs. The USAFE interior designer should follow procedures to ensure that purchase requests reflect agencies' minimum needs and should write purchase specifications in functional terms to promote full and open competition.

The USAFE Contracting Squadron's Role in Furnishing Procurements. USAFE Contracting Squadron personnel did not ensure, as required in FAR part 1, that all the Marshall Center furnishing items requested met the Marshall Center's minimum needs and, as stated in FAR part 10, that the specifications and descriptions were stated in functional terms to promote full and open competition. Consequently, costly furnishing items were purchased. USAFE Contracting Squadron personnel stated that Marshall Center personnel, not Contracting Squadron personnel, were responsible for ensuring that the furnishing requirements met the Marshall Center's minimum needs and that specifications and descriptions were stated in terms of function. The USAFE Contracting Squadron personnel said that their only responsibility was to ensure that the requested items were properly approved and financed. However, we believe that the Contracting Squadron has the responsibility to comply with FAR parts 1 and 10.

Furnishing Procurement Accountability. High-cost furnishing items were purchased as a result of the following actions by the Marshall Center, the USAFE Civil Engineer Directorate, and the USAFE Contracting Squadron.

- o Marshall Center personnel approved high-cost furnishing items without properly questioning the furnishing costs. The costs were not questioned because Marshall Center personnel lacked the expertise required for procurement issues.

- o An interior designer from the USAFE Civil Engineer Directorate identified and presented high-cost furnishing items to Marshall

Center personnel for approval. In addition, the interior designer wrote restrictive purchase specification requests for the selected furnishing items and submitted the requests to the USAFE Contracting Squadron for procurement.

- o The USAFE Contracting Squadron personnel failed to ensure that the requested furnishings met the Marshall Center's minimum needs and that the purchase specifications were stated in functional terms to promote full and open competition.

Corrective Actions by Management Regarding Furnishing Procurements. In May 1994, we discussed the unreasonable procurement costs with the Marshall Center director. The director agreed that the procurements were costly and stated that he would order the return of all returnable furniture items. In June 1994, 87 unused conference center chairs, valued at \$83,500, were returned for a full refund less a \$20,870 restocking charge; however, the director's office furniture was nonreturnable because it had already been used. In September 1994, the Marshall Center ordered replacement conference center chairs at a unit cost of \$490. As a result of returning and reordering conference center chairs, the Marshall Center recouped about \$20,000.

The Marshall Center has since made an effort to use excess base closure furniture rather than procuring new furniture. As of July 1994, the Marshall Center had obtained nearly \$1 million in base closure furniture to satisfy current and future needs. The furniture was obtained free of charge except for an occasional minimal transportation fee.

Procedures for Instructor and Interpreter Contracts. The Marshall Center may not have acquired the best qualified instructors or interpreters at fair and reasonable prices because the contracting process had the following irregularities.

- o Technical evaluation reviews to rank prospective instructors and interpreters were performed before the solicitation closed.

- o Biased technical evaluation criteria were used.

- o Independent Government estimates may have been provided to instructors and interpreters before the contract was awarded.

Technical Evaluation Reviews Performed Before the Solicitation Closed. The Marshall Center Technical Evaluation Review board performed technical evaluation reviews before the solicitation closed for 3 of 37 instructor and interpreter contracts. The early reviews ranged from 2 days to 17 days. Good business practices stipulate that technical evaluation reviews be performed after the solicitation closes. When good business practices are not followed, the potential exists that the best qualified contractor is not awarded the contract. The Marshall Center should establish procedures to verify that technical evaluations are not conducted before solicitations close.

Technical Evaluation Criteria Propriety. Marshall Center personnel used biased technical evaluation criteria in selecting instructors and interpreters.

Former Foreign Language Training Center Europe employees could receive a maximum of 50 points for the technical criteria for experience and teaching qualities, while those bidders with no Foreign Language Training Center Europe experience could receive only a maximum of 35 points. Instructor and interpreter contracts were normally awarded to the bidder with the highest technical evaluation point total because technical evaluation criteria took precedence over contract price. FAR part 15, "Contracting by Negotiation," states that "source selection procedures are designed to ensure impartial and comprehensive evaluation of offerers' proposals." Because of corrective actions taken by the Marshall Center director during the audit, we are making no recommendations concerning the technical evaluation criteria.

Independent Government Estimates Provided to Contractors. Marshall Center personnel may have provided independent Government estimates to contractors (instructors and interpreters) before contract award. Independent Government estimates were a part of the source selection information. FAR part 3, "Improper Business Practices and Personal Conflicts of Interest," states that "no person or other entity may disclose proprietary or source selection information to any person other than a person authorized . . . to receive such information." Potential contractors should not have knowledge of the independent Government estimate or other source selection information. Marshall Center personnel should safeguard the independent Government estimate along with other source selection information.

The contractors' bids were identical to the independent Government estimates for 20 of the 37 contracts reviewed. In one case, the winning offerer's bid was an altered copy of the independent Government estimate. The offerer concealed the independent Government estimate amounts by taping over the amounts and then wrote in identical amounts in pen. We discussed this problem with the U.S. Army Criminal Investigation Command, Special Investigative Branch Europe; RCO Fuerth; and the Marshall Center director. The director said that he would take the necessary corrective action to ensure that independent Government estimates are not provided to prospective contractors in the future.

Management Actions to Improve Future Instructor and Interpreter Contract Awards. The Marshall Center director changed the standard operating procedures for the bid evaluation process for selecting instructors and interpreters to eliminate technical evaluation factors that favored former Foreign Language Training Center Europe employees and to weight contract price equally with technical evaluation criteria. Those actions will help ensure that the Government receives the best qualified instructors and interpreters at fair and reasonable prices.

Processing Purchase Request and Commitment Forms. The Marshall Center and RCO Fuerth personnel wasted time because they inefficiently processed PR&C forms for course reading material (magazines, periodicals, and books). Marshall Center personnel issued a separate PR&C form for every vendor order instead of efficiently processing vendor orders through a single source or by combining orders. Marshall Center personnel prepared, approved, and submitted about 200 PR&C forms to RCO Fuerth for further processing and

contract award. Marshall Center personnel's time was further wasted by receiving and accepting reading materials for about 200 vendor orders.

During the 2-month period ending January 9, 1994, about 200 PR&C forms, valued at about \$172,000, were processed for course reading materials. According to RCO Fuerth, the Marshall Center's supporting contracting office, a reasonable estimate of the overall processing cost is about \$250 per PR&C form. About 137 (74 percent) of the PR&C forms had dollar values ranging from \$12 to \$240. Consequently, actual processing costs exceeded PR&C amounts 74 percent of the time.

In February 1994, the Resource Management Division established an account with the Federal Library and Information Network program. The Federal Library and Information Network program provides the Marshall Center with information retrieval and library support services to assist the Marshall Center in fulfilling course reading material requests. Use of the program should minimize the number of PR&C forms processed because most course reading materials can be purchased through one source, the Federal Library and Information Network program. Because of the Resource Management Division's efforts, we are making no recommendations concerning the PR&C process.

Management Controls Over Facility Planning

Marshall Center personnel failed to prepare a definitive installation master plan that addressed and prioritized mission-essential project requirements as stated in Army Regulation 210-20. The Marshall Center's facility plan was not complete and contained non-mission-essential project requirements. As a result, \$495,000 of Marshall Center funds were programmed for a low priority non-mission-essential grounds restoration project. In addition, the Marshall Center made no definite plans for facility additions and projected future housing deficits.

Grounds Restoration Project. The grounds restoration project, which was scheduled to cost more than \$1.3 million, included excess requirements of \$495,000. According to the memorandum, "Sheridan Grounds Restoration Project Garmisch, Germany," May 20, 1994, about \$1 million of the restoration project was funded for the following non-mission-essential requirements that had been planned and approved for completion:

- o construction of one helipad,
- o construction of a new parking lot,
- o making minor repairs to the main road, and
- o repaving and landscaping the main road and courtyard.

Marshall Center Funds and Other Resources

Initially, two helipads were requested at \$50,000 each. One new helipad was necessary for safety reasons; however, the second helipad was not necessary.

The \$50,000 construction of a new parking lot could not be justified. The existing parking capacity was sufficient. The Marshall Center students do not have access to cars; therefore, additional parking will not be needed.

Minor road repair and removal of a "jog" in the main road for \$20,000 were unnecessary. No immediate need existed for road repairs because the roads were in a condition sufficient to handle the Marshall Center traffic load. However, in late 1994, the road repairs were made and the "jog" in the main road was removed.

The remaining \$375,000 in excessive requirements comprised repavement of the main road and landscape of the main road and courtyard of building 103. The objective of that work was to give the Marshall Center a more traditional college campus look. The Marshall Center should develop a well-defined master plan that delays completion of non-mission-essential projects.

Facility Additions and Future Housing Deficits. Proper consideration has not been given to the receipt of facilities from the German government or the projected family housing deficit. As of July 1994, the Marshall Center had received additional facilities consisting of 10 buildings from the German government. The facilities, valued at \$75 million, are located on the Kraft Von Dellmensingen Kaserne, about a half mile from the Marshall Center. The Marshall Center has not developed a definitive plan on how to best use those facilities.

A Housing Market Analysis was prepared in March 1994 for USAREUR Housing and the Garmisch Military Community. The analysis concluded that the Garmisch military community would experience a family housing shortage of 55 units by 1998. Marshall Center personnel said that they do not believe that a housing shortage will occur. The Marshall Center may be adversely affected in accomplishing its mission if it is not able to house all its employees. The Marshall Center's master plan should include the German facilities and housing alternatives to prevent future family housing deficits.

Management Actions to Improve Facility Planning. The Marshall Center director agreed to delay projects that are not mission-essential. The delay of non-mission-essential projects will allow projects with a higher mission-essential priority to be completed first. In March 1994, the Marshall Center director established a facility board, referred to as a facility standing panel, within the Marshall Center Board structure. The facility board is responsible for planning and presenting facility projects to the Marshall Center Board for approval. The establishment of a facility board will allow the Marshall Center to plan projects in a more efficient and productive way.

Management Controls Over Marshall Center Operations

Initially, because only three senior staff were assigned to the Marshall Center, management controls over the Marshall Center operations were not established. By July 1994, however, Marshall Center staff had increased to 113, the DoD Internal Management Control Program had been implemented, and a majority of the management control weaknesses had been corrected. However, the lack of separation of duties still existed.

Separation of Duties. The duties of the Marshall Center's Dean of Administration and the Commander of the Foreign Language Training Center Europe were not adequately separated from other duties as required by DoD Directive 5010.38. Both individuals controlled or were involved in all phases for facility projects or language instructor contracts. The separation of duties element of management controls requires that different individuals should authorize, process, record, and review transactions. That primary element provides an effective system of checks and balances to reduce and detect fraud, waste, and abuse.

Dean of Administration. The Dean of Administration controlled the planning, budgeting, financing, and procuring for facility projects. The Dean provided oversight for the newly established facility board within the Marshall Center Board structure and supervised the Resource Management Branch. The facility board, established in March 1994, was responsible for planning and presenting facility projects to the Marshall Center Board for approval, while the Resource Management Branch budgeted, financed, and procured approved projects. The projects were procured through the Procurement Branch, which operated under the authority of the Resource Management Branch. The Dean of Administration had control over all phases of a project from the beginning until the end. The potential for abuse was high because of the lack of separation of duties, the combination of duties, and the supervisory authority held over the various functions. During the time of our audit, the Procurement Branch personnel did not have a contracting warrant; however, in November 1994, the Procurement Analyst received a contracting warrant for up to \$25,000. The change of authority for the Procurement Analyst resulted in an even greater problem of lack of separation of duties. We believe the Procurement Branch should be moved from the supervision of the Dean of Administration and the Resource Management Branch to avoid conflict of duties.

Commander of the Foreign Language Training Center Europe. The Commander of the Foreign Language Training Center Europe did not maintain a separation of duties. The Commander was responsible for planning instructor requirements, requesting the instructors, preparing specifications for the instructors, selecting the instructors, and then monitoring the instructors' performance.

The Commander requested the work to be performed and determined the scope of the work. The Commander made final point determinations for language instructor applicants through technical evaluation reviews. The list of applicants was then submitted by the Commander to the source selection official for final

selection. In the past, teacher applicants with the highest technical evaluation point scores were awarded a contract. Once chosen, the Commander had the contracting officer's representative function under his authority to monitor the language instructor's performance. The Marshall Center should assign the duties of the chairperson of the Technical Review Board to the Marshall Center's Procurement Analyst. The new duty assignment will prevent the Commander of the Foreign Language Training Center Europe from controlling all phases of the instructor contracts and will prevent potential conflicts of interest.

Management Actions to Separate Duties. In August 1994, the Marshall Center director transferred the Resource Management Office to the supervision of the Marshall Center Chief of Staff from the Dean of Administration. The director's efforts place the functions of budget and finance under a neutral position; therefore, a low risk exists that errors or irregularities in the area of finance will go undetected.

Conclusion

Marshall Center funds of \$81,350 were unnecessarily used to procure higher cost furniture items, and Marshall Center funds of \$495,000 were inefficiently programmed for a grounds restoration project. Management either circumvented or had not established management controls for procurements, facility planning, and overall operations. However, during our audit, the Marshall Center instituted corrective actions for a majority of the management control weaknesses.

Recommendations, Management Comments, and Audit Response

Deleted, Renumbered, and Revised Recommendations. As a result of management comments, we deleted draft report Recommendation 1.d.(1) to the Director, George C. Marshall European Center for Security Studies, in order to allow for the installation of the west entrance gate, and renumbered the other recommendations accordingly. We also revised Recommendation 1.e. to reflect the U.S. European Command's alternative method to better separate duties.

1. We recommend that the Director, George C. Marshall European Center for Security Studies:

a. Develop and implement standard operating procedures that:

(1) Require all acquisition support to be sent to the assigned supporting contracting office. However, in the event that contracting

support is required from other than the supporting contracting office, requests shall be coordinated with the assigned supporting contracting office before any procurement request packages are submitted.

(2) Require all contract bid technical evaluation reviews to be performed after the solicitation closing date.

(3) Require that the independent Government estimate, along with other source selection information, be protected from unauthorized disclosure.

Management Comments. The Headquarters, U.S. European Command, concurred. Comprehensive standard operating procedures have been written and are being followed.

b. Provide training to educate management and staff concerning the proper procedures for:

(1) Requesting acquisition support from activities other than the assigned supporting contracting office to avoid contract offloading.

(2) Performing proper contract bid technical evaluation reviews.

(3) Safeguarding source selection information, including the independent Government estimate, from unauthorized disclosure.

Management Comments. The Headquarters, U.S. European Command, concurred. Adequate training has been provided to Marshall Center staff and management in the areas of contract offloading, proper technical evaluation reviews, and safeguarding source selection information.

c. Develop and implement a complete installation master plan that prioritizes all mission-essential and non-mission-essential project requirements for short- and long-term periods. The plan should include the newly acquired German facilities and housing alternatives needed to prevent future family housing deficits.

Management Comments. The Headquarters, U.S. European Command, concurred. A draft master plan has been developed to address short- and long-term projects, reuse of newly acquired German facilities, and family housing strategies. A final master plan was expected to be completed in March 1995.

d. Delay completion of the following land restoration project phases until the Marshall Center's mission-essential projects are completed:

(1) Construction of one helipad.

(2) Construction of a new parking lot.

(3) Repaving and landscaping the main road and courtyard.

Management Comments. The Headquarters, U.S. European Command, partially concurred. The U.S. European Command agreed to delay the construction of one helipad, the construction of a new parking lot, and the repaving and landscaping of the main road and courtyard. However, the U.S. European Command did not delay the installation of the west entrance gate. The U.S. European Command said the west gate is necessary to ensure the safety and security of the Marshall Center.

Audit Response. The Headquarters, U.S. European Command, was responsive. We deleted the recommendation to allow the installation of the west entrance gate and revised the draft report potential monetary benefits accordingly. No additional comments are needed.

e. Establish the Resource Management Branch under the supervision of the Marshall Center Director of Plans and Policy.

Management Comments. The Headquarters, U.S. European Command, concurred; however, the U.S. European Command believed to better separate duties the Procurement Branch should be separated from the Resource Management Division. The Resource Management Division now reports to the Director of Plans and Policy instead of the Dean of Administration. This allows the Procurement Branch to remain under the Dean of Administration with no conflict between procurement and resourcing.

Audit Response. The alternative action proposed by the U.S. European Command is responsive and we have revised the recommendation to separate the Procurement Branch from the Resource Management Division. No additional comments are needed.

f. Assign the duties of the Chairperson of the Technical Evaluation Review Board to the contracting officer.

Management Comments. The Headquarters, U.S. European Command, concurred. The contracting officer (previously known as the Procurement Analyst), when required, will be the source selection official and chair any technical evaluation boards.

2. We recommend that the Chief of the Contracting Division, U.S. Air Forces in Europe:

a. Monitor purchase requests to determine that they meet agencies' minimum needs.

Management Comments. The Air Force nonconcurred. The Air Force stated it has several controls and customer guides that they comply with to ensure purchase requests meet the Air Force minimum needs. However, in the case of the Marshall Center, the Air Force did not question the Marshall Center's minimum needs for two reasons: the Marshall Center had already

determined its minimum needs, and a majority of the furnishing items were purchased under General Services Administration multiple award contracts, which are the preferred sources for supplies and services. The Air Force also stated that the \$20,000 savings in the report resulted from an auditor substituting a lesser quality item that is not part of the interior design package.

Audit Response. The Air Force comments were not responsive. We agree the Marshall Center did determine its own minimum needs. However, as stated in FAR parts 1 and 10, it is the contracting officer's duty to monitor and review requirements to ensure that the Government's minimum needs are not exceeded. The USAFE contracting squadron in this way would be acting as a "check" on the procurement process.

We agree that for DoD purposes, that General Services Administration schedules are the preferred sources of supplies and services. However, General Services Administration schedules contract awards still should be monitored by the contracting officer to ensure an agency's minimum needs are not exceeded. Based on the obvious excessive cost of the furnishing items requested by the Marshall Center, the USAFE contracting squadron should have employed other schedules to procure sufficient alternative furnishings at a lower cost. An informal survey of General Services Administration schedules produced several less expensive options that would have satisfied the Marshall Center's needs. The Air Force comments infer that an Air Force contracting officer will buy \$13,000 desks and \$1,150 chairs without question. There is the need for reasonable decisionmaking in addition to all of the written controls. The Air Force needs to clarify its rules to not blindly allow the imprudent expenditure of funds. We request the Air Force to reconsider its position on this recommendation and provide additional comments when responding to the final report.

b. Monitor item specifications and purchase descriptions to determine that they are stated in functional terms to promote full and open competition.

Management Comments. The Air Force nonconcurred. The Air Force stated controls are in place to ensure that item specifications and purchase descriptions are monitored to determine that they are stated in functional terms; however, in the case of the Marshall Center, there was no reason for contracting to question the restrictive purchase descriptions because functional requirements and salient characteristics were based on an overall design package as justified by the Marshall Center. In addition, the Air Force stated that the furnishing items were purchased competitively because the items were procured in accordance with FAR 8.405-1, "Ordering from multiple-award schedules."

Audit Response. The Air Force comments are not responsive. Even though an overall design package was justified by the Marshall Center, the contracting officer still should monitor item specification and purchase descriptions to ensure they are stated in functional terms. We understand that FAR 8.405-1 was adhered to in procuring the furnishing items. However, that regulation makes no exceptions for procuring items that are not written in functional terms

Marshall Center Funds and Other Resources

to promote full and open competition. We request the Air Force to reconsider its position on this recommendation and provide additional comments when responding to the final report.

3. We recommend that the Director, Civil Engineer Directorate, U.S. Air Forces in Europe, Ramstein Air Base:

a. Develop and implement standard operating procedures that:

(1) Require the interior designer to present and document cost alternatives to users for furnishing items that reflect the users' minimum needs.

Management Comments. The Air Force concurred. The Air Force stated it would develop and implement standard operating procedures, effective March 15, 1995, to require the interior designer to present and document cost alternatives to users for furnishing items that reflect the users' minimum needs.

(2) Require specifications and purchase descriptions to be written in functional terms to promote full and open competition.

Management Comments. The Air Force concurred. The Air Force stated it would develop and implement standard operating procedures, effective April 1, 1995, to require specifications and purchase descriptions to be written in functional terms to promote full and open competition.

b. Provide training to educate the interior designer on proper DoD procurement practices.

Management comments. The Air Force concurred. The USAFE interior designer will attend training courses to gain more insight into FAR requirements and purchasing procedures by June 1, 1995.

Management Comments Required

Management is required to comment on the items indicated with an X in the following table.

Management Comments Required on the Finding

<u>Recommendation Number</u>	<u>Organization</u>	<u>Response Should Cover:</u>		
		<u>Concur/ Nonconcur</u>	<u>Proposed Action</u>	<u>Completion Date</u>
2.	Air Force	X	X	X

Part III - Additional Information

Appendix A. Summary of Allegations and Audit Results

The results of the allegations reviewed for unauthorized commitments, contract offloading, unlimited living quarters allowance, general waste and abuse of funds, and splitting requirements are discussed below.

Allegation 1. Marshall Center personnel performed unauthorized commitments.

Audit Results. The allegation was valid. Marshall Center personnel, without contracting authority, made four verbal agreements committing the U.S. Government to expenditures of \$65,210. Three verbal agreements, valued at \$7,500, were made with contractors to develop a curriculum for democratization, and one agreement, valued at \$57,710, was made with the German government to purchase dining room furniture. Marshall Center personnel failed to prepare and submit PR&C forms prior to accepting the contract services and the furniture. The unauthorized commitments occurred because Marshall Center personnel were not properly trained in procurement-related issues.

During the months of May and June 1994, the Resource Management Division established draft standard operating procedures and a training program to educate the Marshall Center's management and staff about procurement policies, processes, and issues. In an attempt to avoid future unauthorized commitments, the standard operating procedures and training program provided information on the proper relationships between contractors and Marshall Center personnel. However, the standard operating procedures and training program did not address techniques to prevent contract offloading and did not address proper instructor and interpreter contracting procedures. Because of the Resource Management Division efforts, we made no recommendations concerning unauthorized commitments.

Allegation 2. Marshall Center personnel offloaded contracts to offices other than their assigned supporting contracting office, RCO Fuerth.

Audit Results. The allegation was valid. Marshall Center personnel offloaded 17 furnishing contracts, valued at about \$277,100, through USAFE Contracting Squadron, and 1 consulting contract, valued at \$2,495, through the National Defense University. The consulting contract was later canceled. The contracts should have been processed through the Marshall Center's assigned supporting contracting office, RCO Fuerth. See the finding for further details of contract offloading.

Appendix A. Summary of Allegations and Audit Results

Allegation 3. The Marshall Center director received an unlimited living quarters allowance.

Audit Results. The allegation was not valid. The Marshall Center director did not receive a living quarters allowance. The director received financial housing assistance in the form of a high-cost foreign lease, defined as any lease agreement where the annual rent exceeds \$20,000.

However, the USAREUR Family Housing Directorate did not properly process the high-cost foreign lease. According to Army Regulation 210-50, "Housing Management," April 24, 1990, maintenance and repair costs of Government-owned furnishings must be included in high-cost foreign lease requests.

The \$39,300 high-cost foreign lease request submitted to Congress by the USAREUR Family Housing Directorate did not include \$10,300 for maintenance and repair costs of Government-owned furnishings. The USAREUR Family Housing Directorate did not have procedures in place to ensure compliance with Army Regulation 210-50. As a result of our audit, the USAREUR Family Housing Directorate is establishing procedures to ensure compliance with Army guidance.

Allegation 4. Marshall Center personnel generally wasted money through facility renovations to the director's office, through the conference center, and through the director's future living quarters.

Audit Results. The allegation was partially valid. Marshall Center funds were wasted on procurements for the director's office and the conference center. See the finding for further details.

As of July 1994, no funds had been expended on the director's future living quarters. In July 1994, the Marshall Center received a military officers club from the German government. The Marshall Center plans to convert the officers club into a permanent residence for the Marshall Center director at a preliminary estimated cost of \$170,000. A complete economic analysis will be performed before any renovation work is conducted.

Allegation 5. The Marshall Center awarded sole-source contracts by splitting requirements to keep them under \$2,500.

Audit Results. The allegation was not valid. We reviewed PR&C listings to determine whether requirements were split. We found no evidence of such actions.

Appendix B. Summary of Potential Benefits Resulting From Audit

Recommendation Reference	Description of Benefit	Amount and/or Type of Benefit
1.a.(1) and 1.b.(1)	Management Controls. Reduces the potential for costly procurements and the risk that management will lose control over appropriated funds and the acquisition process.	Undeterminable. Amount of benefits from reductions in costly procurements cannot be projected.
1.a.(2), 1.a.(3), 1.b.(2), and 1.b.(3)	Management Controls. Establishes procedures to ensure that the best qualified teachers are hired at fair and reasonable prices.	Undeterminable. Amount of benefits from future teacher hires cannot be projected.
1.c.	Management Controls. Develops a definitive installation master plan to promote a more efficient use of funds and other resources relevant to the activity's mission.	Undeterminable. Prevention of fraud, waste, and abuse will have continuing future monetary benefits.
1.d.	Economy and Efficiency. Reduces inefficient use of Government funds.	Funds put to better use: \$495,000 in FY 1994.
1.e.	Management Controls. Reduces the potential for fraud, waste, and abuse by separating key facility project functions.	Undeterminable. Prevention of fraud, waste, and abuse will have continuing future monetary benefits.
1.f.	Management Controls. Reduces the potential for fraud, waste, and abuse by separating key language instructor functions.	Undeterminable. Prevention of fraud, waste, and abuse will have continuing future monetary benefits.

Appendix B. Summary of Potential Benefits Resulting From Audit

Recommendation Reference	Description of Benefit	Amount and/or Type of Benefit
2.a. and 2.b.	Compliance with Regulations. Improves USAFE contracting procedures.	Undeterminable. Prevention of fraud, waste, and abuse will have continuing future monetary benefits.
3.a.(1) and 3.b.	Economy and Efficiency. Prevents inefficient use of Government funds.	Undeterminable. Prevention of waste of funds cannot be determined for future procurements.
3.a.(2)	Compliance with Regulations. Improves USAFE purchase request procedures.	Undeterminable. Prevention of fraud, waste, and abuse will have continuing future monetary benefits.
Finding	Economy and Efficiency. Reduces inefficient use of Government funds. As a result of our audit, the Marshall Center returned costly conference center chairs; therefore, no recommendation was made.	Funds put to better use: \$20,000 in FY 1994.

Appendix C. Organizations Visited or Contacted

Office of the Secretary of Defense

Under Secretary of Defense for Policy, Washington, DC
Office of Assistant Secretary of Defense/International Security Affairs (North Atlantic Treaty Organization Affairs), Washington, DC

Department of the Army

Deputy Assistant Secretary of the Army (Installations and Housing), Washington, DC
U.S. Army, Europe, Heidelberg, Germany
Family Housing Directorate, Heidelberg, Germany
U.S. Army Contracting Command, Europe, Heidelberg, Germany
U.S. Army Europe Contracting Center, Frankfurt, Germany
Regional Contracting Office Fuerth, Germany
Regional Contracting Office Seckenheim, Germany
266th Theater Finance Command, Seckenheim, Germany
European District, U.S. Army Corps of Engineers, Frankfurt, Germany

Department of the Air Force

U.S. Air Forces in Europe, Ramstein Air Base, Germany
Civil Engineer Directorate, Ramstein Air Base, Germany
Contracting Squadron, Rhine Ordnance Barracks, Germany

Unified Command

U.S. European Command, Stuttgart, Germany
George C. Marshall European Center for Security Studies, Garmisch, Germany

Non-Defense Organization

European Division, General Accounting Office, Frankfurt, Germany

Appendix D. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense for Policy
Office of Assistant Secretary of Defense/International Security Affairs (North Atlantic Treaty Organization Affairs)
Under Secretary of Defense (Comptroller)
Deputy Under Secretary of Defense (Comptroller/Management)
Deputy Under Secretary of Defense (Comptroller/Program/Budget)
Director, Defense Procurement
Deputy Director (Foreign Contracting)
Assistant to the Secretary of Defense (Public Affairs)
Director, Defense Logistics Studies Information Exchange

Department of the Army

Commander in Chief, U.S. Army, Europe
Director, Family Housing Directorate
Commander, U.S. Army Contracting Command, Europe
Chief, Regional Contracting Office Fuerth
Chief, Regional Contracting Office Seckenheim
Commander, 266th Theater Finance Command
Auditor General, Department of the Army
Deputy Assistant Secretary of the Army (Installations and Housing)
Commander, European District, U.S. Army Corps of Engineers

Department of the Navy

Office of the Assistant Secretary of the Navy (Financial Management and Comptroller)
Auditor General, Department of the Navy

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)
Commander in Chief, U.S. Air Forces in Europe
Chief, Contracting Division, Directorate of Logistics
Commander, Contracting Squadron, Rhine Ordnance Barracks
Auditor General, Department of the Air Force

Appendix D. Report Distribution

Other Defense Organizations

Director, Defense Contract Audit Agency
Director, Defense Logistics Agency
Director, National Security Agency
Inspector General, National Security Agency
Inspector General, Central Imagery Office

Unified Command

Commander in Chief, U.S. European Command
Director, George C. Marshall European Center for Security Studies

Non-DoD Organizations

Office of Management and Budget
Technical Information Center, National Security and International Affairs Division,
General Accounting Office
European Division, General Accounting Office

Chairman and ranking minority member of each of the following
congressional committees and subcommittees:

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on National Security, Committee on Appropriations
House Committee on Government Reform and Oversight
House Subcommittee on National Security, International Affairs, and Criminal
Justice, Committee on Government Reform and Oversight
House Committee on National Security

Part IV - Management Comments

U.S. European Command Comments

Final Report
Reference



REPLY TO
ATTENTION OF

ECCS

HEADQUARTERS
UNITED STATES EUROPEAN COMMAND
Office of the Deputy Commander-in-Chief
APO AE 09128




23 MAR 1995

MEMORANDUM FOR Inspector General, 400 Army Navy Drive,
Arlington, Virginia 22202-2884

SUBJECT: Audit Report on Procurements and Facility Renovations
at the George C. Marshall Center (Project No. 4CK-8003)

1. Reference: DoD Inspector General Memorandum dated 10 Jan 95, SAB.
2. Headquarters, U.S. European Command has reviewed the draft hotline audit report and provides the enclosed comments. We concur in the findings and recommendations that have been made and have undertaken many steps to address these concerns.
3. One factual discrepancy exists between two references on page 16. The facility board was established in March 1994.
4. Thank you for the opportunity to comment on the draft audit report. We look forward to receiving your final report.

Enclosure
Detailed comments


RICHARD F. KELLER
Lieutenant General, USA
Chief of Staff

Revised.

HEADQUARTERS, UNITED STATES EUROPEAN COMMAND
RESPONSE TO

DODIG DRAFT AUDIT REPORT ON PROCUREMENTS AND FACILITIES
RENOVATIONS AT THE GEORGE C. MARSHALL CENTER
PROJECT NUMBER 4CK-8003

DODIG Finding: "The Marshall Center and USAFE personnel used Marshall Center funds and other resources inefficiently and ineffectively. That condition occurred because internal controls were either circumvented or missing for procurements, facility planning, and Marshall Center operations. Consequently, \$626,350 of Marshall Center funds was either unnecessarily spent or unnecessarily programmed for contracting. Also, the Government has no assurance that property and other resources are adequately safeguarded against waste. During the audit, the Marshall Center director implemented actions to correct a majority of the internal control weaknesses."

Revised
potential
benefits.

HQ USEUCOM Response: Concur in part. See explanation on individual recommendations.

Recommendation 1a: Develop and implement standard operating procedures that:

(1) Require all acquisition support to be sent to the assigned supporting contracting office (currently Regional Contracting Office (RCO) Fuerth). However, in the event that contracting support is required from other than the supporting contracting office, requests shall be coordinated with the assigned supporting contracting office before any procurement request packages are submitted.

(2) Require all contract bid technical evaluation reviews to be performed after the solicitation closing date.

(3) Require that the independent Government estimate, along with other source selection information, be protected from unauthorized disclosure.

HQ USEUCOM Response: Concur. A comprehensive standard operating procedure has been written and is being followed. Since the time of the audit, the servicing contract office has changed from RCO Fuerth to RCO Seckenheim. Additionally, the Marshall Center, more specifically, Mr. Phil Ammirato, has been issued a contracting warrant that allows him to execute contracts up to \$25,000. All recommendations listed in 1a have been addressed and are being executed. Recommendation is complete.

Recommendation 1b: Provide training to educate management and staff concerning the proper procedures for:

Final Report
Reference

(1) Requesting acquisition support from activities other than the assigned supporting contracting office to avoid contract offloading.

(2) Performing proper contract bid technical evaluation reviews.

(3) Safeguarding source selection information, including the independent Government estimate, from unauthorized disclosure.

HQ USEUCOM Response: Concur. The first measure taken was to hire a fully qualified and trained procurement specialist; the previous employee was a Civilian Personnel Specialist with no contracting experience. Our contracting officer, Mr. Phil Ammirato, comes to us with over 20 years experience in contracting and 10 years as a contracting officer. Adequate training has been provided, by RCO Fuerth and Mr. Ammirato, to staff and management in the areas of contract offloading, proper technical evaluation reviews and safeguarding source selection information. Procedures have been updated and revised to incorporate this training. Ongoing training for Marshall Center staff includes distribution of a Marshall Center users' guide, which explains in detail the procedures to be used for procurement planning and execution. Additionally, contract assistance training has been conducted for Marshall Center personnel. Whereas staff training is a recurring item and all other recommendations have been accomplished, this action is complete.

Recommendation 1c: Develop and implement a complete installation master plan that prioritizes all mission-essential and non-mission-essential project requirements for short- and long-term periods. The plan should include the newly acquired German facilities and housing alternatives needed to prevent future family housing deficits.

HQ USEUCOM Response: Concur. The Marshall Center has a Master Planning Board that consists of the Deputy Director, the Chiefs of each Directorate, the Marshall Center Engineer, the Area Support Team (AST) Commander and the AST Directorate of Engineering and Housing. Regular meetings have been held and a master plan has been developed to address short- and long-term projects, reuse of newly acquired German facilities and family housing strategies. The latest meeting, 25 and 26 January, was the culmination of several months of planning and from that a long-range and short-term master plan is in draft form. Expected completion: March, 1995.

Recommendation 1d: Delay completion of the following land restoration project phases until the Marshall Center's mission-essential projects are completed:

(1) Installation of a new west entrance gate.

(2) Construction of one helipad.

(3) Construction of a new parking lot.

Deleted.
Renumbered
(1)
Renumbered
(2)

(4) Repaving and landscaping the main road and courtyard.

HO USEUCOM Response: Concur in part. The grounds restoration project that has been undertaken is a necessary and required project. Sheridan Kaserne is the main element of the Marshall Center. In the late 1980's this Kaserne was part of the Armed Force Recreation Center and plans were made for the construction of a multi-story hotel. The ground of over half the Kaserne were demolished and construction began. Shortly after construction began a drawdown-driven decision was made to cancel the contract. What was left was an environmental mess and a considerable eyesore that scarred the valley in a predominately tourist town. The restoration project was designed to correct the environmental and public nuisance problems that have existed for the last 5 years. Of the four items of concern we concur with three, halting the construction of a new parking lot, not repaving and landscaping the main road and courtyard and only constructing one helipad. In fact these were never in a contract and only listed in a contract proposal. All of these proposals were in the process of being rejected as part of the Master Planning Board process. Nonconcur with the fourth element. The installation of a new west gate is necessary to ensure security and correct a situation that developed when the Kaserne was part U.S. and part German. The west gate currently consists of three separate gates all within 100 meters of each other. Construction of one consolidated gate will meet security requirements on the west side of the Kaserne. For safety and security reasons, the west gate has been closed but access denial will not be complete until the gate modifications are accomplished. This action is complete.

Renumbered
(3).

Recommendation 1e: Establish the Procurement Branch under the supervision of the Marshall Center Chief of Staff.

Revised.

HO USEUCOM Response: Concur. The recommendation that the Procurement Branch be moved from the Dean of Administration was based on the idea that the Procurement Branch should be separate from the Resource Management Division. At the time the Resource Manager worked for the Dean of Administration and the Procurement Branch worked for the Resource Manager. In an effort to better separate duties the Resource Manager now works for the Director of Plans and Policy. This allows the Procurement Branch to remain under the Dean of Administration with no conflict between procurement and resourcing. When Mr. Ammirato was issued his contract warrant, a memorandum of agreement was executed between the Marshall Center and the U.S. Army Contracting Command. The separation of duties, as described, were discussed and found to be acceptable to the principal assistant responsible for contracting. Action is complete.

Recommendation 1f: Assign the duties of the Chairperson of the Technical Evaluation Review Board to the Procurement Analyst.

HO USEUCOM Response: Concur. Mr. Ammirato, our contracting officer, when required, will be the Source Selecting Official and Chair any Technical Evaluation

U.S. European Command Comments

Final Report
Reference

Boards. The procedure for selections of the mentioned contracts have been changed to allow contracts to be awarded based on the lowest bid. Action is complete.

Revised.

Monetary Benefits: [From Executive Summary] Potential monetary benefits and operational efficiency can be realized by improving procurement, contracting, facility planning, and operating procedures. However, we could not quantify the amount of those benefits. Potential monetary benefits of \$545,000 will result from delaying completion of non-mission-essential phases of a land restoration project. As a result of our audit, the Marshall Center recouped about \$20,000 from the return of costly conference center chairs.

HO USEUCOM Response: Concur with comment. With compliance as noted above, significant savings will be realized over the next several years at the Marshall Center. The savings associated with the west gate safety/security modifications [\$50,000] are not applicable.

Department of the Air Force Comments



DEPARTMENT OF THE AIR FORCE
HEADQUARTERS UNITED STATES AIR FORCES IN EUROPE

16 MAR: 1995

MEMORANDUM FOR INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
ATTENTION: OAIGA/CM
400 Army Navy Drive
Arlington VA 22202-2884

FROM: HQ USAFE/LG
Unit 3050 Box 105
APO AE 09094-0105

SUBJECT: Draft Audit Report on Procurements and Facility Renovation at the
George C. Marshall Center (Project No. 4CK-8003)

We've reviewed subject report and provide comments at the attached. Our points of
contact are:

Major Miller, HQ USAFE/LGCK, DSN 480-2209, for contracting
Major Timko, HQ USAFE/CEOF, DSN 480-6207, for civil engineering

A handwritten signature in black ink, appearing to read "W. R. Hodges", is positioned above the printed name and title.

WILLIAM R. HODGES
Brigadier General, USAF
Director of Logistics

Attachment:
Comments

cc:
HQ USAFE/FMPX

HQ USAFE COMMENTS ON DOD IG DRAFT AUDIT REPORT
"PROCUREMENTS & FACILITY RENOVATIONS
AT THE GEORGE C. MARSHALL CENTER"
PROJECT NO. 4CK-8003

Summary of Findings and Recommendations:

a. Reference Finding on page 7, last paragraph: "Inefficient/Ineffective Use of Marshall Funds by USAFE Contracting Squadron (CONS) personnel," i.e., furnishings procurement and accountability. **Nonconcur.**

See specific reasons in paragraphs 1b and 1c below.

b. Reference Recommendation for Corrective Action 2a: **Nonconcur.**

(1) The USAFE CONS has several internal controls and customer guides to ensure purchase requests meet the Air Force minimum needs and we adhere to them, as in this case. The following shows the methods by which USAFE CONS guides customers and monitors purchase requests to ensure minimum needs are met:

(a) Customer and Buyer training is conducted to retain the quality of specification review and improve full and open competition.

(b) The USAFE CONS Customer Guide, dated April 1994, explains the requirement for specifications, salient characteristics, and functional statements. A separate part explains the need for a sole source justification when restrictive purchases are anticipated. An additional chapter talks about the process of delivery orders under multiple GSA contracts.

(c) The 1993 USAFE CONS Buyer's Hand Book addresses purchase descriptions. The processing of delivery orders against multiple GSA contracts is explained in detail.

(d) The specifications for requirements exceeding \$25,000 are discussed on a case-by-case basis with the requesting activity, in order to meet the requirements of FAR Part 10.

(e) Continuous buyer training is conducted for full understanding of FAR Part 10 in regards to salient characteristics, functional statements, and minimum needs in order to promote full and open competition. Guidance is sent periodically from the USAFE CONS Commander to all customers detailing the need for functional characteristics on purchase requests.

(2) The issue is who establishes requirements for local purchase. The administrative authority (i.e., Table of Allowance (TOA)) is applicable to the requester. In this case, there was no reason to question the authority since the majority of the items were purchased under multiple awards General Services Administration (GSA) contracts. Awards to these GSA contracts is the "preferred source of supplies and services" (Reference DFARS 8.404-2 (a)(70) and OASD letter

dated 27 Oct 1988). In addition, the use of competitive procedures is met when purchases are made from GSA schedules in accordance with applicable procedures in FAR 8.405-1, which was complied with in this case. Each individual item purchased for the conference center renovation represented an integral part of the overall design package. The requirement of compatibility within the package was justified. USAFE CONS did comply with the above referenced regulations and in fact had three sources to compare on these. The savings of \$20,000 identified in the audit report did not stem from a more economical purchase of the overall design package. Rather the savings were realized by the auditor substituting a lesser quality item that was not part of the design package justified by the Interior Designer. It is our position that the customer, not contracting determines the minimum needs of the Government.

c. Reference Recommendation for Corrective Action 2b: **Nonconcur.**

As shown above, USAFE CONS monitors item specifications and purchase descriptions. In the case of the Marshall Center, the customers identified the minimum requirement based on the TOA and compatibility with the high profile use of the George C. Marshall conference center. Functional requirements and salient characteristics were based on the overall design package as justified by the requesting organization. There was no reason for contracting to believe that the requirement was overstated or outside the requester's TOA. Competitive procedures were then used to obtain the requirement.

d. Reference Finding on page 9 and 10: "Use of USAFE Civil Engineer Directorate to Select Furnishings." **Nonconcur.**

HQ USAFE/CE does not agree with the finding that the HQ USAFE interior designer did not consider the Marshall Center's minimum needs in recommending furniture items. The items selected met the minimum needs of the Marshall Center since the Marshall Center personnel selected the items from a range of items suggested by the interior designer. The interior designer did not establish the minimum needs of the Center; Marshall Center personnel determined their minimum needs, and the furnishings that would meet them. They had the interior designer travel to other similar facilities throughout Europe with the understanding that the Marshall Center was to exceed them in terms of appearance and quality. In addition, the interior designer was to absorb "lessons learned" during the construction of these facilities. Initially, wooden desk items were proposed with a much lesser cost. The director requested a glass desk and conference table configuration. Later, the interior designer suggested furniture within USAFE that was being redistributed from closing bases, such as Soesterberg AB, but this idea was rejected by the Marshall Center. Additionally, the Marshall Center requested high back leather chairs and funded this purchase despite the interior designer's advice that the high back was a poor choice given the long, narrow shape of the room. Marshall Center personnel made the decision to have identical chairs to eliminate any protocol problems in seating arrangements and to allow all the chairs to be used in any of the three conference rooms. HQ USAFE/CE also disagrees with the hearsay comment, taken out of context, that "Marshall Center personnel said that the interior designer discussed prices, but the interior designer stated that, to properly represent the Marshall Center, the purchase of quality furniture was more important than the cost of the furniture." The comment was made to reflect that the cost of an item does not necessarily reflect quality. In the

case of the chairs, for example, the leather covering presented a better investment over the life of the chair in terms of appearance and durability, and presented a better impression to visitors to the Center. The USAFE interior designer did write some restrictive furniture specifications for the director's office, but only after the Marshall Center decided that was exactly what they wanted. The Marshall Center also provided sole-source justification letters. There was only one GSA contract that carried this type of furniture and it had to be ordered component-by-component since it was a modular system. In addition, maintaining a coherent interior design package was a primary concern; as the Marshall Center desired to achieve a first-class facility.

e. Reference Recommendation for Corrective Action 3a(1): **Partially Concur.**

(1) HQ USAFE/CE concurs with the recommendation to better document cost alternatives provided to users, however, they do not concur with the inference that the interior designer did not present alternatives for furnishing items that reflected minimum needs. Refer to the nonconcurrency to finding in 1d above.

(2) Proposed Corrective Actions:

(a) The interior designer will implement standard operating procedures to have customers certify that the design meets minimum needs and document alternatives presented to the user. (ECD: 15 Mar 95)

(b) A tape recorder is being ordered to allow accurate transcriptions of meetings. (ECD: 30 Jun 95)

f. Reference Recommendation for Corrective Action 3a(2): **Partially concur.**

(1) HQ USAFE/CE agrees that, normally, specifications and purchase descriptions should be written in functional terms to promote full and open competition, however, there were unique circumstances surrounding this project which made it imperative to specify a particular item, in order to meet the tight schedule, to satisfy the user's desire for a specific product and to maintain an integrated interior design.

(2) Proposed Corrective Action: The USAFE interior designer will implement standard operating procedures to write specifications and purchase descriptions in functional terms to promote full and open competition. (ECD: 1 Apr 95)

g. Reference Recommendation for Corrective Action 3b: **Concur.**

Proposed Corrective Action: The USAFE interior designer will attend training to gain more insight into FAR requirements and purchasing procedures. (ECD: 1 Jun 95)

Audit Team Members

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